

TO: Marty Barrington  
FROM: Roy Anise  
SUBJECT: Industry Performance

DATE: September 6, 1999

The following provides an overview of domestic industry volume trends to date in 1999.

### Summary

Based on a review of PM-USA's major data sources total industry volume is estimated to have declined approximately -8% to -9% through the first six months of 1999. During this same time period average retail prices increased about +32% implying an elasticity factor of -0.3 (i.e., for each 10% increase in price industry volume declines about -3%).

### Findings

- Total industry shipments from manufacturer to wholesaler during the first six months of 1999 were 203.8 billion units, down -10.0% versus year-ago (Source: Management Science Associates).
- This -10.0% shipment decline was somewhat overstated by changes in estimated wholesaler inventories and increased grey market product. Adjusting for these factors, industry volume is estimated to have declined about -8.5%.
  - Wholesalers depleted an estimated 1.3 billion units more of non working inventory in 1999 than in 1998. As a result, nearly 0.9% of the industry's 10.0% shipment decline was due to wholesaler inventory changes.
  - The U.S. Department of Commerce reports a +1.7 billion unit increase in Paper Wrapped (excluding Clove) cigarettes imported into the US during the first six months of 1999 vs. the corresponding period year-ago. The Raw (unprojected) STARS database, which represents shipments from wholesale to retail, indicates a +0.4 billion unit increase in international cigarette shipments (product imported into the US). Excluding the STARS reported international volume from the US Dept. of commerce import figure implies an increase in grey market shipments of about 1.3 billion units. Accordingly, approximately 0.6% of the industry's 10.0% shipment decline was due to increased grey market shipments.
  - In total, grey market shipments during the first half 1999 are estimated at 2.6 billion units which represents 1.3% of total industry shipments.
- Total industry shipments from wholesale to retail during the first six months of 1999 were down -8.1% versus year-ago (Source: STARS - based on shipments to a static panel of 152,000 stores weighted for store size). These panel stores represent over 40% of the total store universe.
- Smoking incidence and average cigarettes per day decreased during the first six months of 1999 versus the corresponding period year-ago (Source: Roper). Note: although the Roper service provides a long term barometer of smoking behavior, it is generally limited in its ability provide shorter term (such as year-over-year) indication on changes in behavior.
  - Smoking incidence among Legal Age adult smokers decreased 0.2 points versus year-ago to 26.1%.
  - Among Legal Age adult smokers, average cigarettes per day decreased 0.3 sticks per day versus year-ago to 18.8 sticks.
- Among Marlboro smokers interviewed during June through August 1999, an average of 4.5% report not finding Marlboro miles on their pack (Source: CTS). This is an indication that the pack is grey market. Assuming that this 4.5% of smokers equates to 4.5% of Marlboro volume this would represent about 3.3 billion units of Marlboro volume during the first half of 1999.

# Industry Takeaway Estimates

## Year-to-Date 6/99

	<u>1998</u>	<u>1999</u>	<u>% Chg</u>
Shipments	226.4	203.7	-10.0%
Est. Prior YE	14.0	7.4	
Est. 2Q	12.0	3.5	
Est. Wholesale NWI Δ	- 2.0	- 3.9	
Total Imports* <i>Cigarettes</i>	1.8	3.5	
<i>International</i> STARS Reported Imports** <i>Wholesale to</i>	0.4	0.8	
<i>Brand</i> Est. Other <i>Retailer delivery</i>	1.3	2.6	
Wholesale Adj. Shipments	228.4	207.6	-9.1%
Other Adj. Shipments	227.7	206.3	-9.4%
Wholesale & Other. Adj Ship.	229.7	210.2	-8.5%

\* Based on U.S Dept. of Commerce data for Paper Wrapped (excluding Clove) Cigarettes

\*\* Based on MSA Raw STARS Database

*Intended for sales in U.S.*

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Cigarettes Imported into the United States for Consumption  
1996 - 1999  
Units in Thousands

	Paper Wrapped (w/o clove)	Estimated STARS Imports	Estimated Gray Product
Jan-98	207,372	54,851	152,521
Feb-98	265,312	56,585	208,727
Mar-98	357,245	72,881	284,364
Apr-98	264,512	68,237	196,275
May-98	321,056	75,816	245,240
Jun-98	334,638	91,771	242,867
Jul-98	339,973	80,442	259,531
Aug-98	355,160	87,565	267,595
Sep-98	285,414	111,428	173,986
Oct-98	442,063	97,101	344,962
Nov-98	354,963	90,993	263,970
Dec-98	500,234	177,087	323,147
Jan-99	564,829	116,938	447,891
Feb-99	631,320	136,287	495,033
Mar-99	602,229	149,352	452,877
Apr-99	502,233	121,087	381,146
May-99	610,022	138,810	471,212
Jun-99	549,010	178,693	370,317

1998 Total	4,027,942	1,064,757	2,963,185
1998 YTD 6/98	1,750,135	420,142	1,329,993
1999 YTD 6/99	3,459,643	841,168	2,618,475
1999 Projection	7,962,381	2,131,757	5,830,624

1999 less 1998	3,934,439	1,067,000	2,867,439
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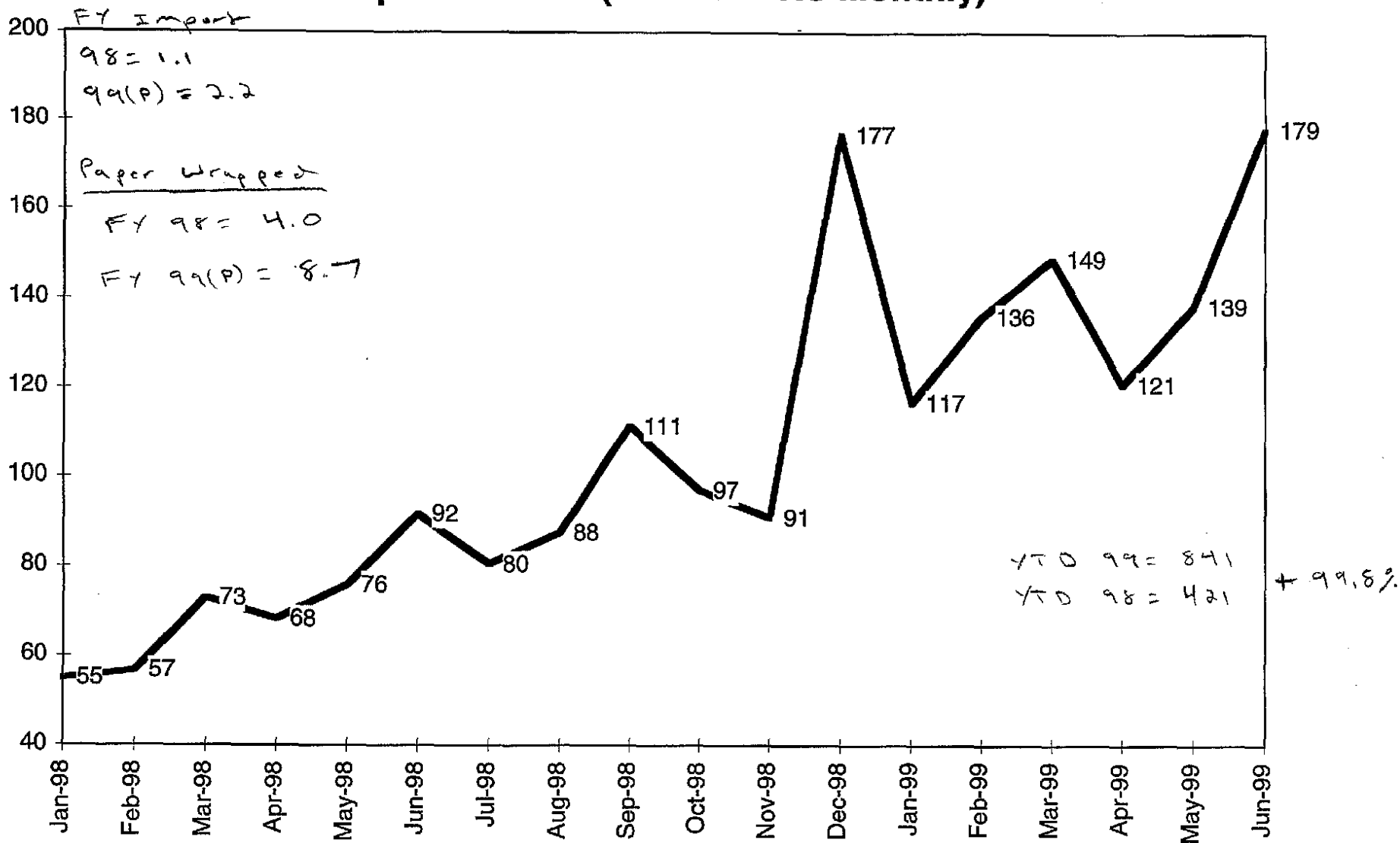
Tentative Working Estimates

US govt x mo 6/99.XLS Tot less Estimated Legit Import  
9/7/99 11:38 AM

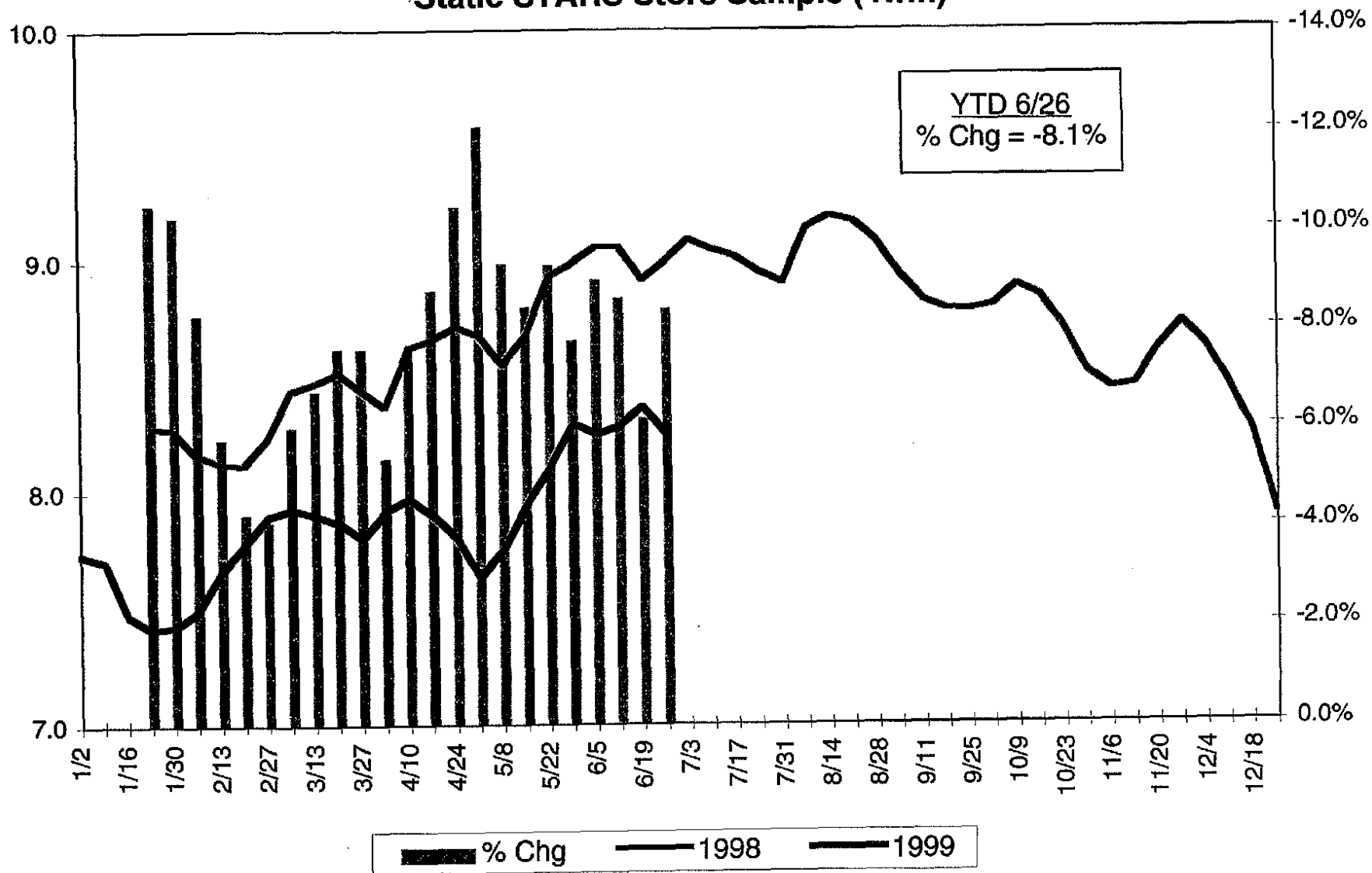
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(MM Units)

# Import Product (RAW STARS Monthly)



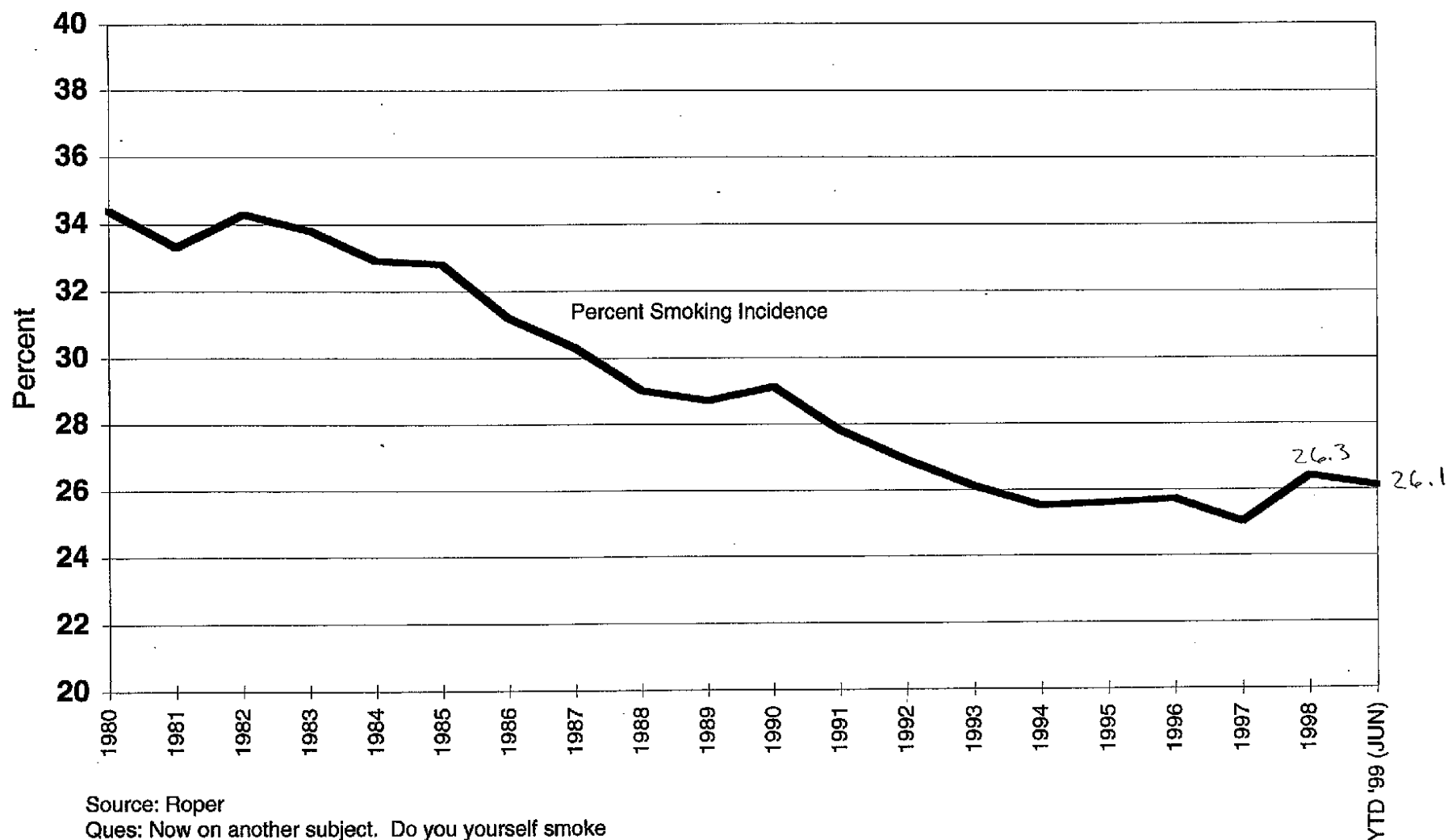
**Weighted Industry Volume & % Change  
Static STARS Store Sample (4wm)**



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# SMOKING INCIDENCE

## Among LA Adults

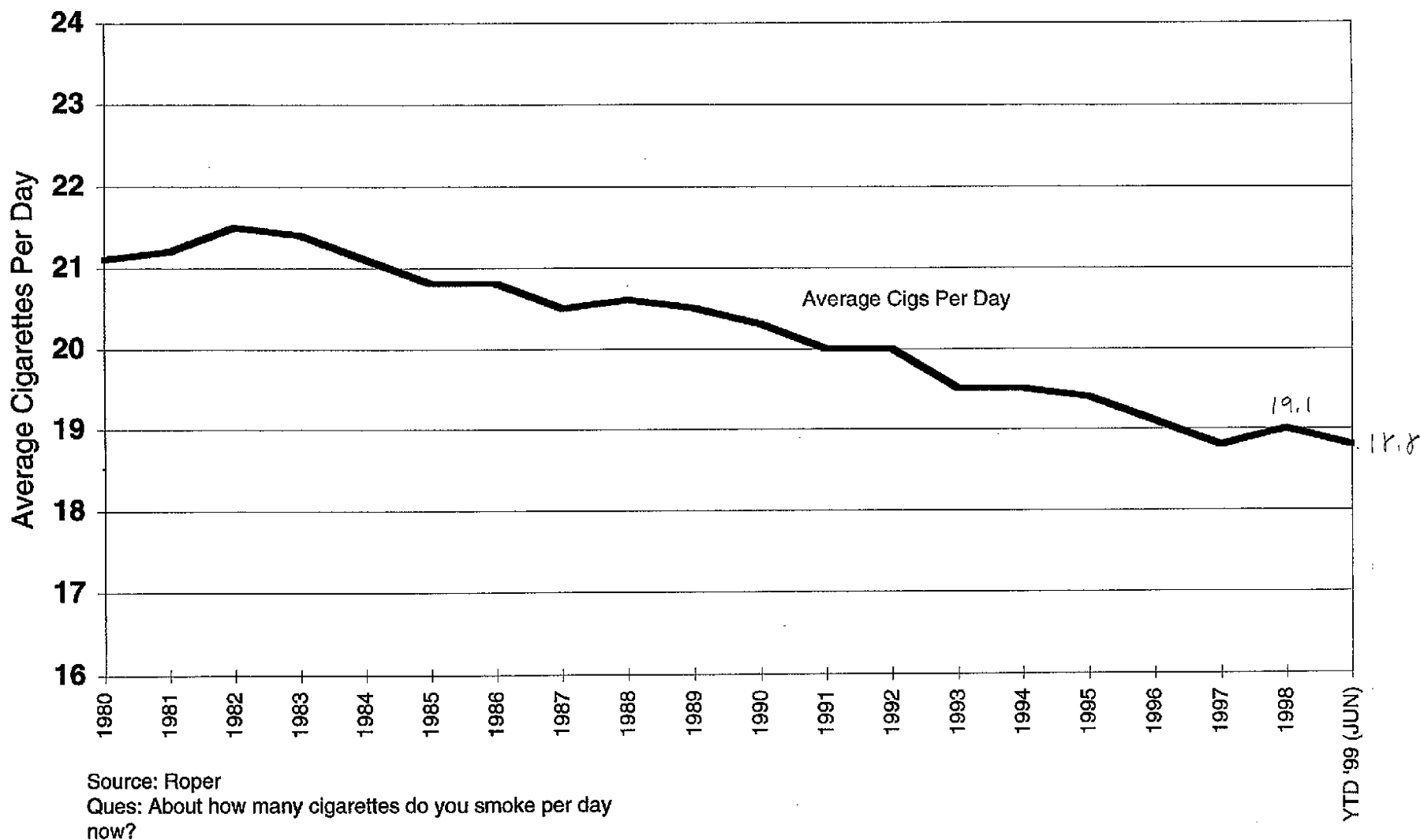


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Roper Data.xls 9/7/99

# AVERAGE CIGARETTES PER DAY Among LA Adults



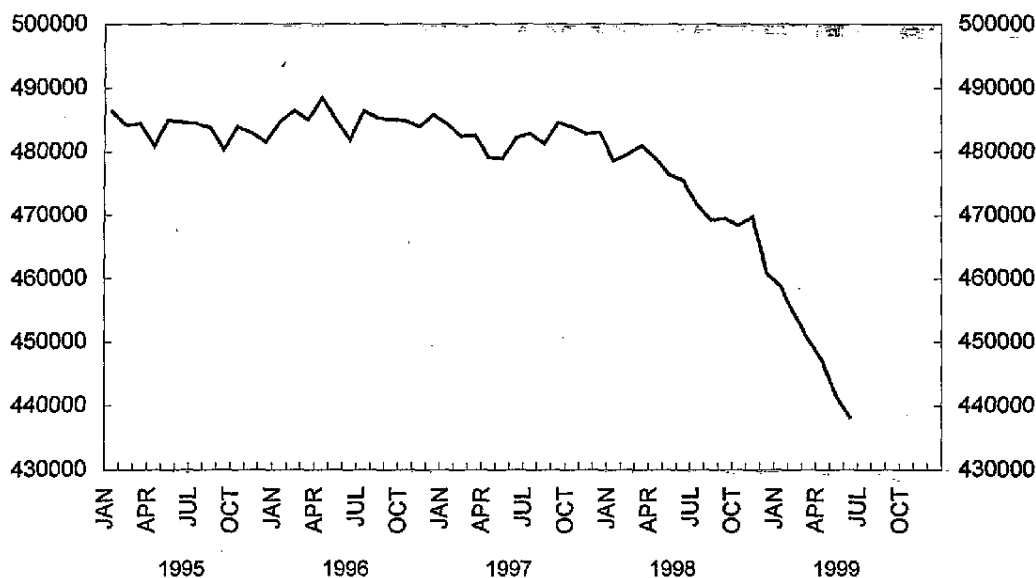
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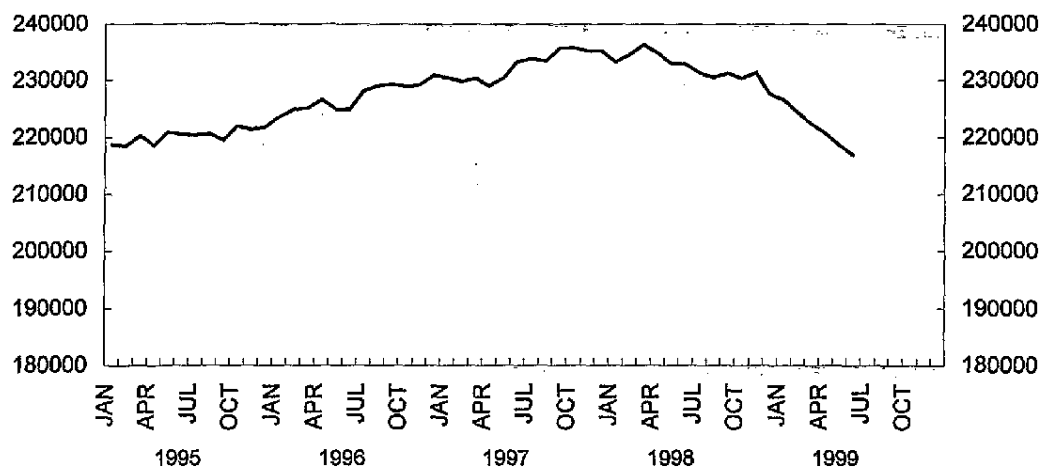
Roper Data.xls 9/7/99

# INDUSTRY 12 MONTH MOVING VOLUME

Gmm

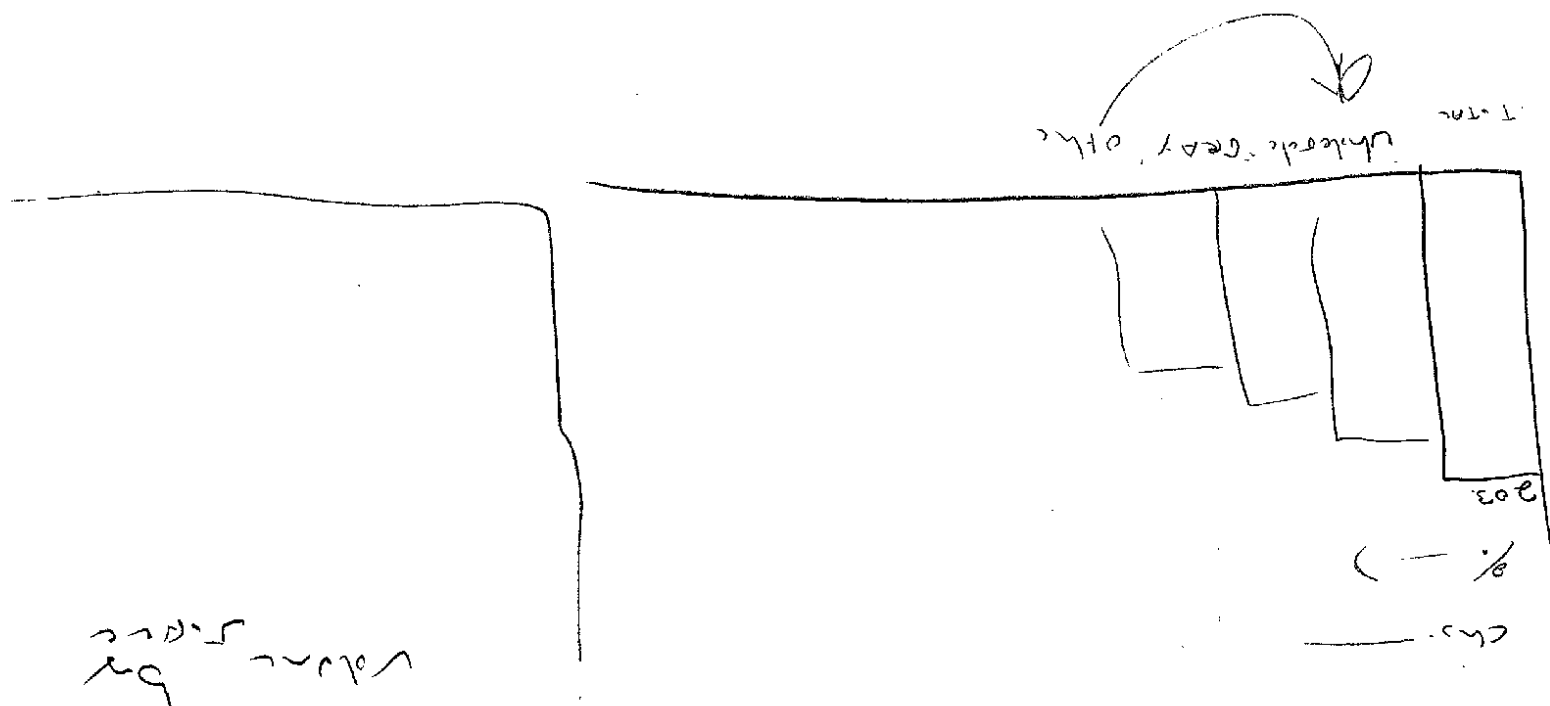


# PHILIP MORRIS 12 MONTH MOVING VOLUME



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• Summary of Dublin description

— 5th grade

— 5th grade

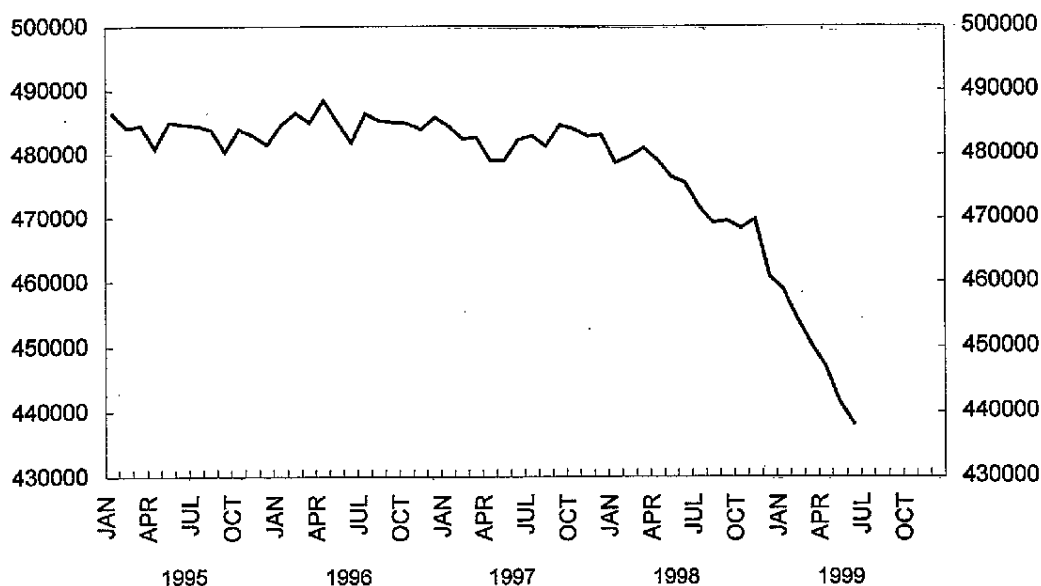
• Travel notebook - Roy

• John Donham

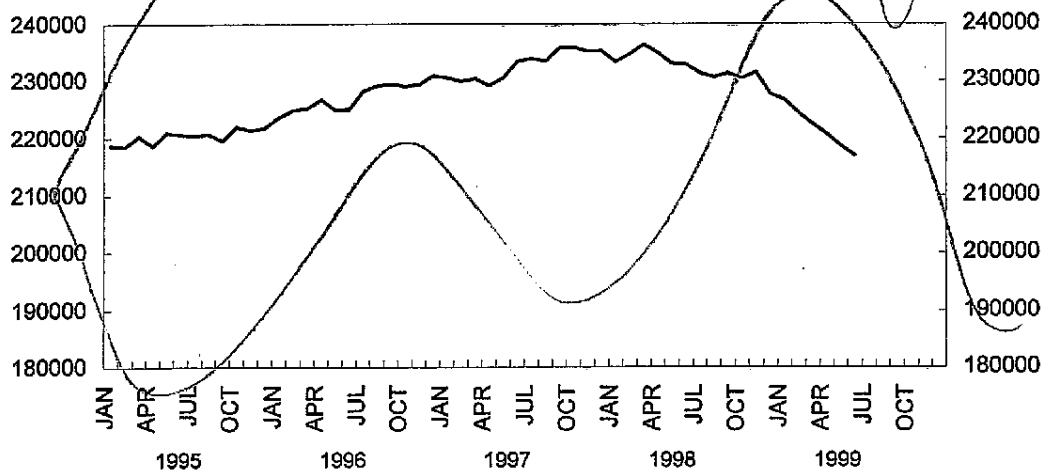
• Wholesale - by highest decline in Ropes

Mr. SET data.

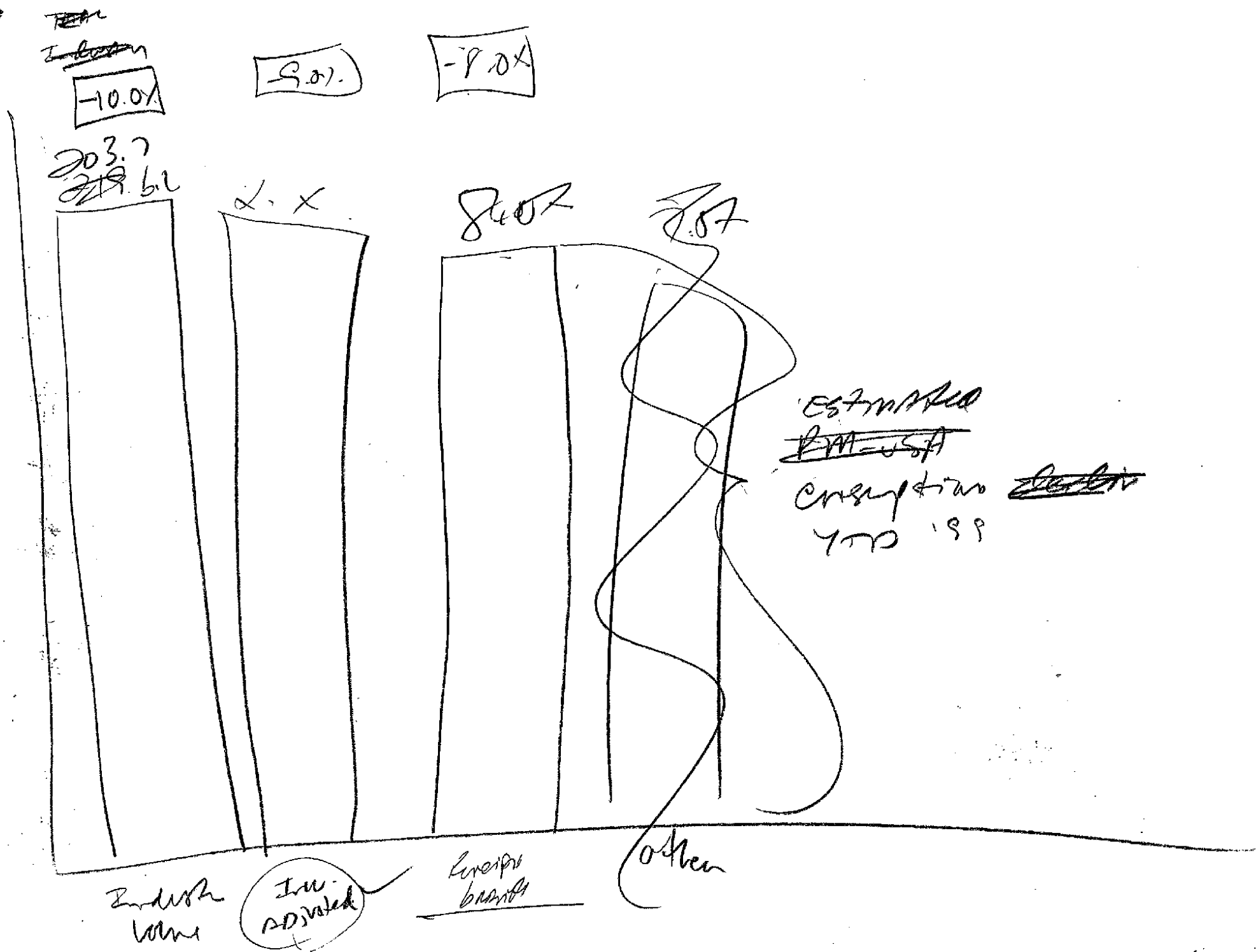
## INDUSTRY 12 MONTH MOVING VOLUME



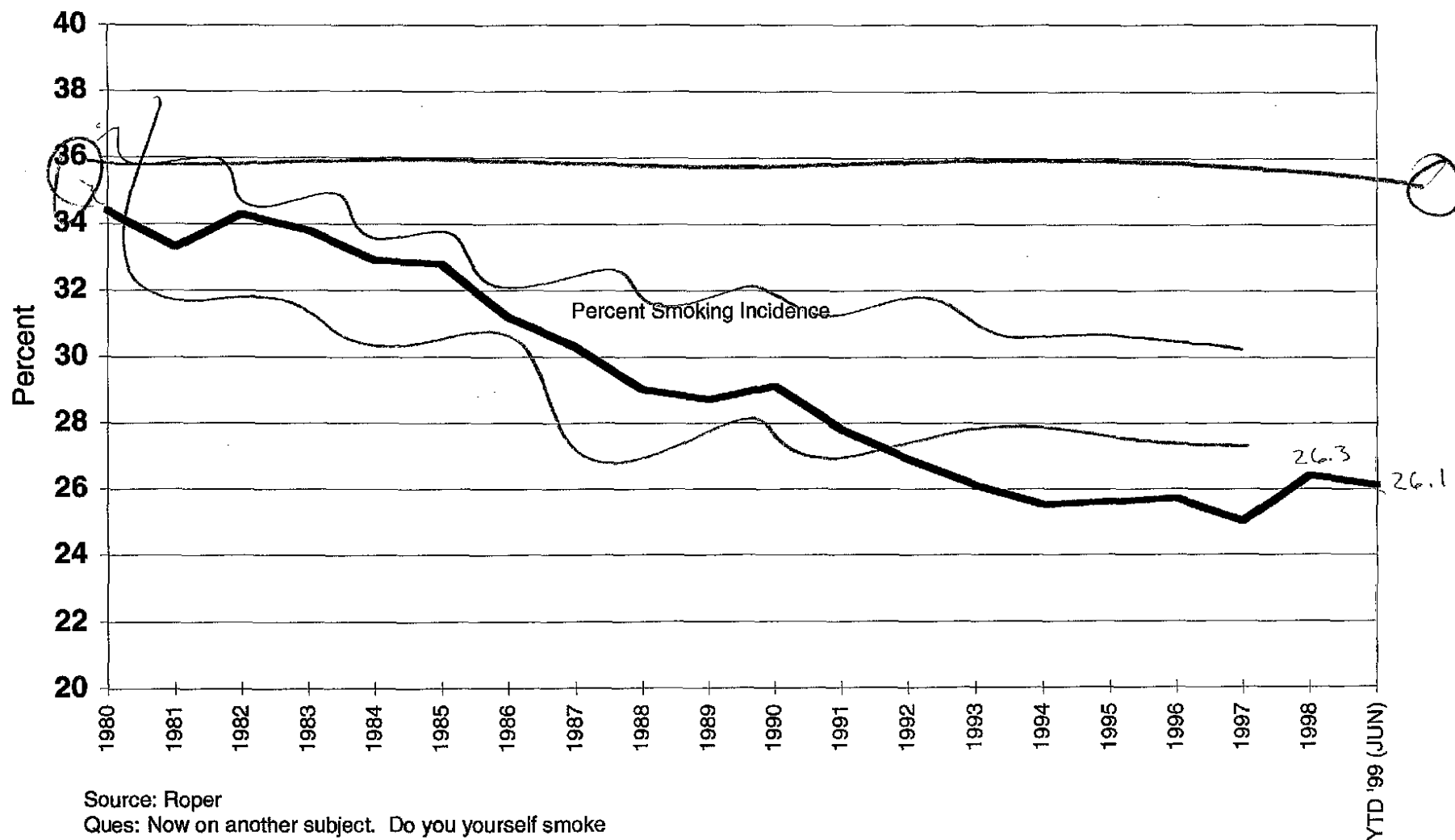
## PHILIP MORRIS 12 MONTH MOVING VOLUME



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# SMOKING INCIDENCE Among LA Adults



Source: Roper

Ques: Now on another subject. Do you yourself smoke cigarettes? By that I mean as much as a pack a week?

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Roper Data.xls 9/7/99

Shipments

~~DATA~~ 12 Months Data

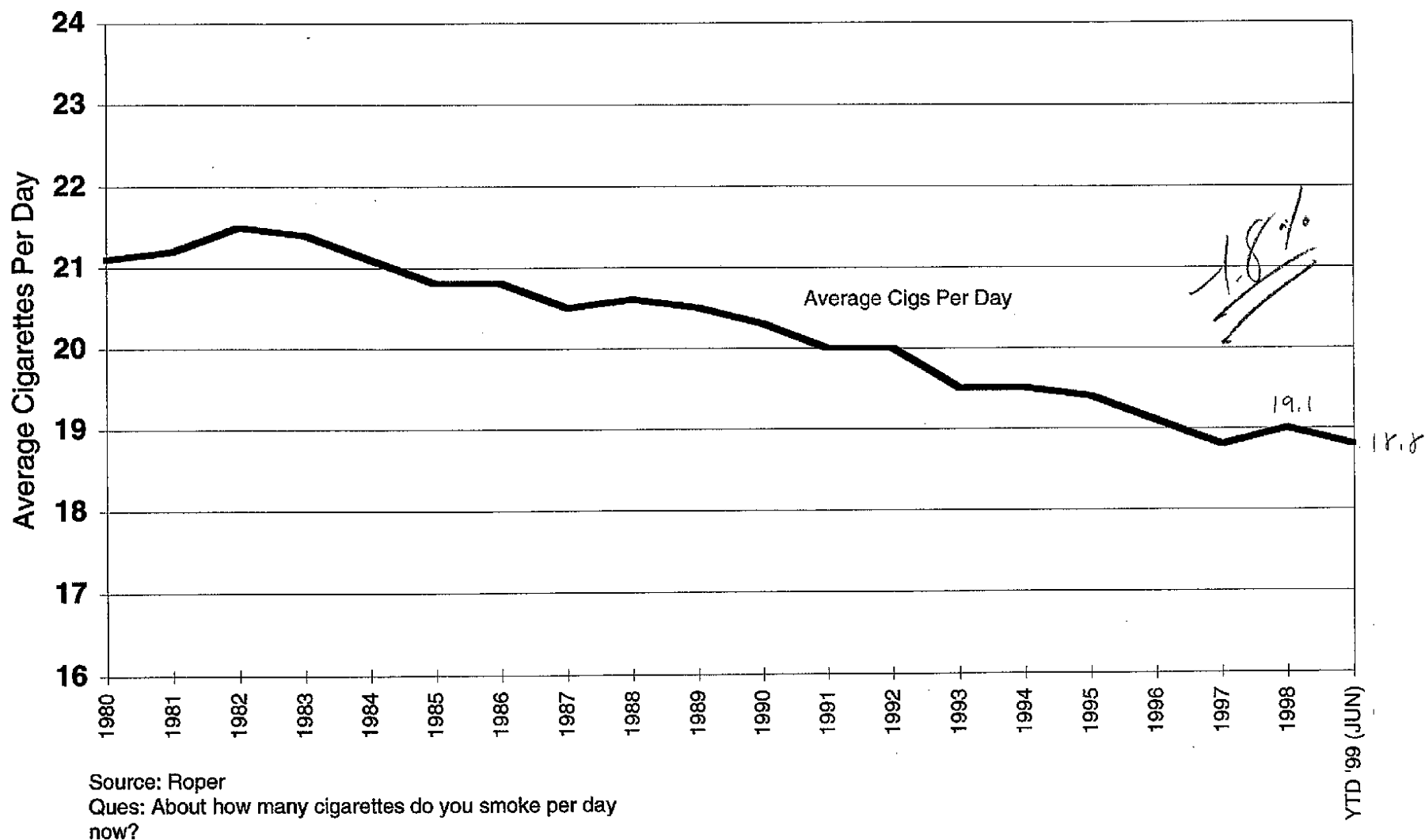
DATA

14,000

10,000 units

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# AVERAGE CIGARETTES PER DAY Among LA Adults

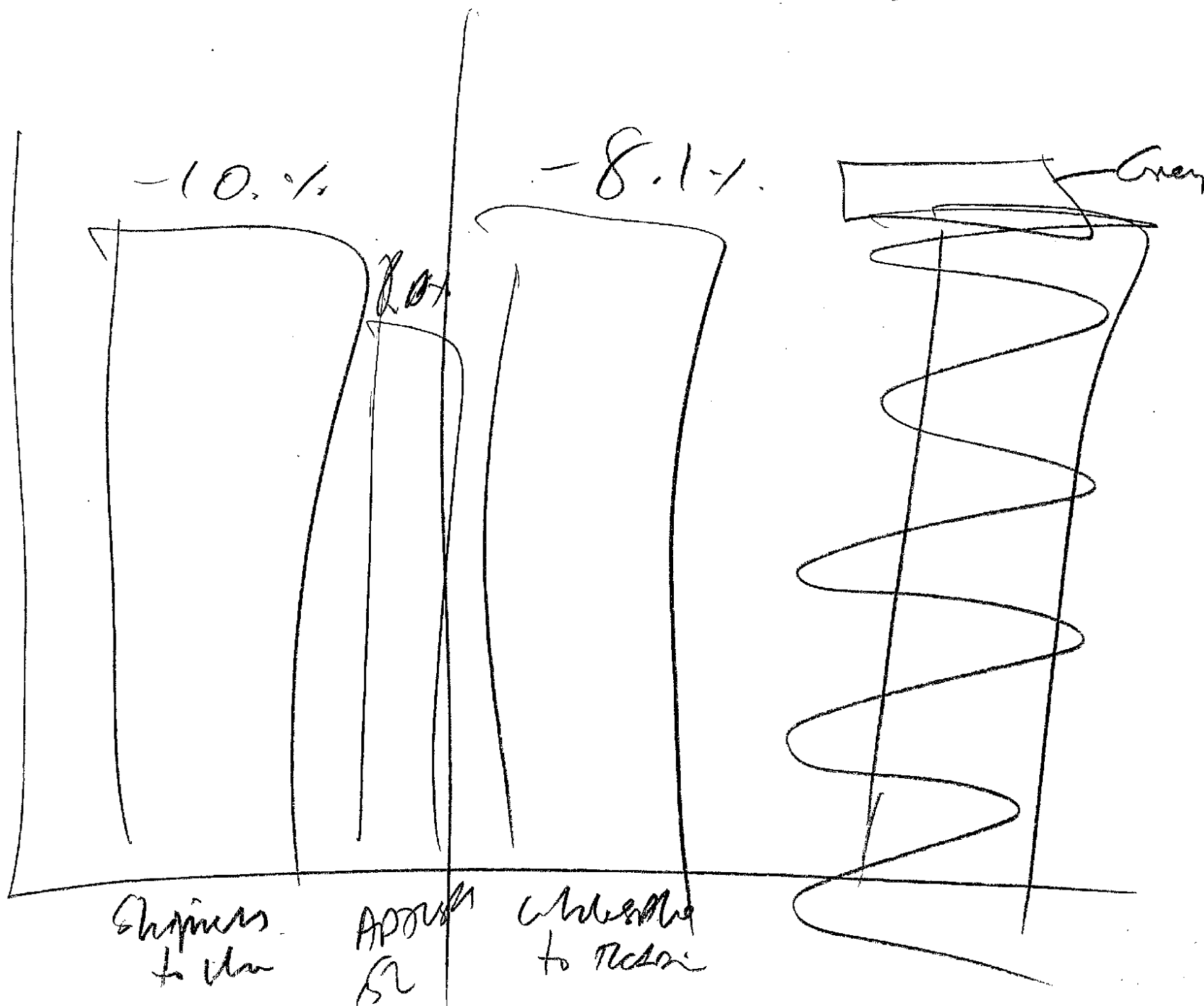


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Roper Data.xls 9/7/98

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	<u>1998</u>	<u>1999</u>	<u>% Chg</u>		
Shipments	226.4	203.7	-10.0%	-22.7	-10.0%
Est. Prior YE	14.0	7.4			
Est. 2Q	12.0	3.5			
Est. Wholesale NWI Δ	2.0	3.9		1.9	0.84%
Total Imports*	1.8	3.5			
STARS Reported Imports**	0.4	0.8			
Est. Other	1.3	2.6		1.3	0.57% 1.3%
Wholesale Adj. Shipments	228.4	207.6	-9.1%		
Other Adj. Shipments	227.7	206.3	-9.4%		
Wholesale & Other. Adj Ship.	229.7	210.2	-8.5%		

\* Based on U.S Dept. of Commerce data for Paper Wrapped (excluding Clove) Cigarettes

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